

1 2 3 4		11 C.F.R. § 100.23 11 C.F.R. § 102.5(a) 11 C.F.R. § 106.1(a)(1) 11 C.F.R. § 106.1(b)	
5		11 C.F.R. § 109.1	
6	·	11 C.F.R. § 110.9(a)	
7	•	11 C.F.R. § 9001.1	
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9	INTERNAL REPORTS CHECKED:	Disclosure Reports	
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11	FEDERAL AGENCIES CHECKED:	None	
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13	I. <u>GENERATION OF MATTER</u>		
14	This matter was initiated by a com	nplaint filed on November 21, 2000, by Bryan Griggs	
15	("Complainant"). Complainant alleges that the Committee to Elect Conrad Lee and David L.		
16	Yarno, as treasurer ("the Lee Committee"), and Conrad Lee, a state candidate (collectively		
17	"Respondents"), contributed to the presidential campaign of George W. Bush by mailing bumpe		
18	stickers to voters advocating the election of both Lee and Bush.		
19	The Lee Committee, Conrad Lee,	and Bush-Cheney 2000 Inc. and David Herndon, as	
20	treasurer ("the Bush Committee"), were notified of the complaint on November 29, 2000. The		
21	Bush Committee responded, through counsel, by letter received December 20, 2000. Conrad Le		
22	submitted an undated response received on January 11, 2001. The Lee Committee did not		
23	separately respond.		
24	Conrad Lee sought nomination for	r election to the Washington House of Representatives	
25	for the 41 st district in the 2000 primary ele	ection, which occurred on September 19, 2000. Lee	
26	lost the primary election with 36% of the vote. His campaign committee, the Lee Committee, is		
27	registered and reports in the State of Washington.		

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II. FACTUAL AND LEGAL ANALYSIS

A. The Law

The Federal Election Campaign Act of 1971, as amended (the "Act"), defines a contribution as "any gift, subscription, loan, advance, or deposit of money or anything of value made by any person for the purpose of influencing any election for Federal office." 2 U.S.C. § 431(8)(A)(i). An expenditure is defined as "any purchase, payment, distribution, loan, advance, deposit, or gift of money or anything of value, made by any person for the purpose of influencing any election for Federal office." 2 U.S.C. § 431(9)(A)(i). The Commission has defined "anything of value" to include, among other things, all in-kind contributions, i.e., "the provision of any goods or services without charge or at a charge which is less than the usual and normal charge for such goods or services . . . " 11 C.F.R. §§ 100.7(a)(1)(iii) and 100.8(a)(1)(iv). Pursuant to 2 U.S.C. § 441b, it is unlawful for corporations, national banks, and labor organizations to make a contribution or expenditure in connection with any election for federal office. Pursuant to Washington law, however, corporations and labor unions can make 14 contributions to committees registered in that state. The Act further provides that a person (including a committee) may make up to \$1,000 in contributions per election to any candidate for federal office, or his authorized committee. 2 U.S.C. § 441a(a)(1)(A). The definitions of "contribution" and "expenditure" both include similar "coattail exemptions," which exclude payments made by candidates (including for both State and local offices) or their authorized committees for the cost of campaign materials referencing another

Under Washington law, individuals are limited to contributions of \$600 per election to legislative candidates and party committees are limited to amounts based on the number of registered voters; the latter could lead to excessive contributions under the Act. See Washington Public Disclosure Commission http://www.pdc.wa.gov/filerasst/2000lmts.htm (accessed July 3, 2001).

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candidate that are used in connection with volunteer activities, including bumper stickers, "but 1 2 not including the use of . . . direct mail, or similar types of general public communication or political advertising." 2 U.S.C. § 431(8)(B)(xi) and 11 C.F.R.§ 100.8(b)(17). In the case of 3 contributions, the exemption only applies if the "payments are made from contributions subject 4 to the limitations and prohibitions of this Act," and with respect to "expenditures," if "[t]he 5 6 payment of the portion of the cost of such materials allocable to Federal candidates [is] made 7 from contributions subject to the limitations and prohibitions of the Act." Id. "Direct mail" means any "mailings by commercial vendors or mailings made from lists which were not 8 9 developed by the candidate." 11 C.F.R. §§ 100.7(b)(16) and 100.8(b)(17). 10 Under the Presidential Election Campaign Fund Act ("the Fund Act"), a presidential candidate may elect to receive public funding of his general election campaign. See generally 26 11 U.S.C. § 9001 et seq., 11 C.F.R. § 9001.1 et seq. As a condition for receiving public funds, a 12 candidate must limit spending to the amount of the federal funds, and the candidate must not 13 accept private contributions to defray qualified campaign expenses. See 26 U.S.C. § 9003(b). 14 15 An independent expenditure is "an expenditure by a person expressly advocating the

An independent expenditure is "an expenditure by a person expressly advocating the election or defeat of a clearly identified candidate which is made without cooperation or consultation with any candidate, or any authorized committee or agent of such candidate, and which is not made in concert with, or at the request or suggestion of, any candidate, or any authorized committee or agent of such candidate." 2 U.S.C. § 431(17). The term "clearly identified" means, *inter alia*, that the name of the candidate involved appears. 2 U.S.C. § 431(18)(A).

Pursuant to 11 C.F.R. § 100.22,

Expressly advocating means any communication that -

(a) Uses phrases such as "vote for the President," "re-elect your Congressman," "support the Democratic nominee," "cast your ballot for the Republican challenger for U.S. Senate in Georgia," "Smith for Congress," "Bill McKay in '94," "vote Pro-Life" or "vote Pro-Choice" accompanied by a listing of clearly identified candidates described as Pro-Life or Pro-Choice, "vote against Old Hickory," "defeat" accompanied by a picture of one or more candidate(s), "reject the incumbent," or communications of campaign slogan(s) or individual word(s), which in context can have no other reasonable meaning than to urge the election or defeat of one or more clearly identified candidate(s), such as posters, bumper stickers, advertisements, etc. which say "Nixon's the One," "Carter '76," "Reagan/Bush" or "Mondale!"; or

- (b) When taken as a whole and with limited reference to external events, such as the proximity to the election, could only be interpreted by a reasonable person as containing advocacy of the election or defeat of one or more clearly identified candidate(s) because-
- (1) The electoral portion of the communication is unmistakable, unambiguous, and suggestive of only one meaning; and
- (2) Reasonable minds could not differ as to whether it encourages actions to elect or defeat one or more clearly identified candidate(s) or encourages some other kind of action.²

The Commission has considered potential coordination that took place prior to the

effective date of 11 C.F.R. § 100.23 under the standards set forth in FEC v. Christian Coalition,

Two appellate courts have determined that part (b) of this regulation is invalid. Maine Right to Life v. FEC, 98 F.3d 1 (1st Cir. 1996) and FEC v. Christian Action Network, 110 F.3d 1049 (4th Cir. 1997). On September 22, 1999, the Commission unanimously adopted a statement formalizing a pre-existing policy of not enforcing subsection (b) in the First and Fourth Circuits. In January 2000, a district court in Virginia issued a nationwide injunction preventing the Commission from enforcing 11 C.F.R. 100.22(b) anywhere in the country. Virginia Society for Human Life, Inc. v. FEC, 83 F.Supp.2d 668 (E.D. Va. 2000). The FEC has filed an appeal of the injunction. The analysis in this Report relies only on 11 C.F.R. § 100.22(a). See discussion infra.

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1 52 F. Supp. 2d 45 (D.D.C. 1999). 3 In addressing the issue of what constitutes "coordination"

with a candidate, the *Christian Coalition* court discussed two general ways in which coordination

3 could occur: first, that "expressive coordinated expenditures made at the request or the

4 suggestion of the candidate or an authorized agent" would be considered coordinated; and

second, "absent a request or suggestion, an expressive expenditure becomes 'coordinated' where

6 the candidate or her agents can exercise control over, or where there has been substantial

discussion or negotiation between the campaign and the spender over, a communication's:

(1) contents; (2) timing; (3) location, mode or intended audience (e.g., choice between newspaper

or radio advertisement); or (4) 'volume' (e.g., number of copies of printed materials or frequency

of media spots)." Id. at 92. The court also found that coordination might be established if an

individual had a certain level of decision-making authority for both the spender and the campaign

and the spender made the expressive expenditures to assist the campaign. *Id.* at 96-97.

Payments involving both expenditures on behalf of one or more clearly identified federal candidates and disbursements on behalf of one or more clearly identified non-federal candidates are allocated according to the proportion of space devoted to each candidate as compared to the total space devoted to all candidates. 11 C.F.R. § 106.1(a)(1). The regulations further provide that an authorized expenditure made by a candidate or political committee on behalf of another candidate shall be reported as an in-kind contribution to the candidate on whose behalf the expenditure was made. 11 C.F.R. § 106.1(b).

Pursuant to 2 U.S.C. §§ 433 and 434, any organization that qualifies as a "political committee" must register with the Commission and file periodic reports of all receipts and

On November 30, 2000, the Commission approved a final coordination rule, 65 C.F.R. 76,138 (December 6, 2000), codified at 11 C.F.R. § 100.23 (effective May 9, 2001). The Commission simultaneously amended its "Independent Expenditure" definition and related definitions at 11 C.F.R. § 109.1 to conform with the new coordination rule.

- disbursements. The Act defines a political committee as "any committee, club, association, or
- 2 other group of persons which receives contributions . . . or which makes expenditures
- 3 aggregating in excess of \$1,000 during a calendar year." 2 U.S.C. § 431(4)(A). For the
- 4 purposes of the Act, the term "person" is defined as including "an individual, partnership,
- 5 committee, association, corporation, labor organization, or any other organization or group of
- 6 persons " 2 U.S.C. § 431(11).

7 In Buckley v. Valeo, 424 U.S. 1 (1976), the Supreme Court construed the Act's references

- 8 to "political committee" in such a manner as to prevent their "reach [to] groups engaged purely in
- 9 issue discussion." The Court recognized that "[t]o fulfill the purpose of the Act [the definition of
- 10 'political committee'] need only encompass organizations that are under the control of a
- candidate or the major purpose of which is the nomination or election of a candidate." 424 U.S.
- 12 at 79.4
- 13 The Commission has taken the position that, "when determining if an entity should be
- 14 treated as a political committee, the standard used is whether the organization's major purpose is
- campaign activity; that is, making payments or donations to influence any election to public
- 16 office." Advisory Opinion 1996-3. But see FEC v. GOPAC, 917 F. Supp. 851, 863 (D.D.C.

In Akins v. FEC, 101 F.3d 731 (D.C. Cir. 1996) (en banc), the court held that the Commission's application of the "major purpose" test to find political committee status in MUR 2804 was inappropriate. The court held that the statutory language defining "political committee" is not ambiguous, 101 F.3d at 740, but further noted that the Supreme Court's discussion of "major purpose" in Buckley and MCFL applied only to independent expenditures, not to coordinated expenditures and direct contributions. Id. at 741-42. The Supreme Court subsequently vacated this decision for other reasons, see FEC v. Akins, et al., 524 U.S. 11 (1998), without ruling on the criteria for an organization to be deemed a "political committee."

Even if an entity becomes a political committee, it is not obligated to use only hard money or to disclose all of its non-federal activity. Political committees may set up separate federal and non-federal accounts. 11 C.F.R. § 102.5(a). Wholly non-federal activity may be paid for from the non-federal account and need not be reported to the Commission.

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1 1996) (court held that "campaign activity" means "federal" campaign activity for purposes of

- 2 defining the term "political committee" under the Act).⁶
- Regardless of any "political committee" analysis, any person that is not a "political
- 4 committee" must still report any "independent expenditure" activity in an aggregate amount or
- 5 value in excess of \$250 during a calendar year to the Commission under 2 U.S.C. §434(c).

B. The Complaint

Complainant alleges he received a bumper sticker, which he attached to his complaint, on or about September 9, 2000, by bulk mail from the Lee Committee, along with a fundraising letter.⁷ The attached bumper sticker contains the phrases, side-by-side, in approximately the same-sized type: "George W. Bush for White House, Conrad Lee for State House." The bumper sticker states at the bottom: "Paid for by: Committee to Elect Conrad Lee (R) 4409 138th Avenue SE, Bellevue, WA 98006."

According to Complainant, "The Bumper sticker gave the impression that Conrad Lee was endorsed by the Bush Campaign and vice versa. It also allowed Conrad Lee, District Co-Chair for the George Bush campaign to circumvent Federal Campaign laws by contributing to the campaign of George Bush in violation of the laws governing this activity." Complainant also enclosed with his complaint a copy of a memorandum, which he states he received from the "republican party," and which apparently indicated to Complainant that if his campaign had done the action he is complaining about here, "we would have risked legal problems." The enclosed memorandum is dated September 15, 2000, is addressed to the Bush-Cheney 2000 Strategy and

Advisory Opinion 1996-3 was issued on April 19, 1996, after the GOPAC decision, which is dated February 29, 1996.

Complainant was an opponent of Conrad Lee in the primary race for election to the Washington House of Representatives in the 41st district.

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Political Divisions from the Bush-Cheney 2000 Legal Division Re: "FEC Coattail Exemption— 1 2 Opportunity for Down Ballot Candidates to Promote Bush-Cheney Ticket." The memorandum appears to describe the legal criteria for qualifying for the Act's "coattail exemption" and notes 3 "[w]hen down ballot candidates take advantage of this exemption, the candidates' campaign 4 committees can pay to produce the collateral materials without Bush-Cheney having to pay 5 anything." It further states, "This is an excellent opportunity for our down ballot campaign allies 6 7 to spend money promoting Governor Bush and Secretary Cheney without the campaign having to 8 pay for it." 9 Complainant alleges that he contacted the Bush campaign, and "they denied giving any authorization to" the Lee Committee to distribute the bumper stickers. Complainant estimates 10 that the Lee Committee printed and mailed over 30,000 of the bumper stickers to households in 11

the Bellevue area covering the 41st legislative district of Washington.

C. The Responses

By letter received December 20, 2000, the Bush Committee, through counsel, filed a response to Complainant's allegations. In its response, the Bush Committee claims that the complaint does not allege a violation of the Act or the Commission's regulations "by either the Governor George W. Bush for President Committee, Inc. or Bush-Cheney 2000 Committee, Inc." The response also states that 11 C.F.R. §§ 100.7(b)(16) and 100.8(b)(17) permit the activity alleged in the complaint as it pertains to Governor Bush's campaigns.

By letter received January 11, 2001, Conrad Lee also submitted a response to Complainant's allegations, in which he contends that the complaint is not justified. Lee claims that no contribution was made to Bush by the mailer, the "meat" of which he claims was a letter to the voters advocating Lee's election. He also claims that the mailer only incidentally included

the bumper sticker, and that it was meant to benefit his own election, not Bush's. According to

2 Lee, there was no contribution as he was trying to convey his own political position in his own

3 election. He claims that the mailer was sent only to identified Republicans in the district, with

fewer than 8,000 copies mailed. Moreover, Lee states that the mailing was made during the

5 Washington State Primary Election, long after the state's Presidential Primary was over, and that

the General Election was still months away. He expresses his hope that there will be no

reason-to-believe findings, no action will be taken, and that the file will be closed. The Lee

Committee did not separately respond.

D. Analysis

George W. Bush was a candidate for President of the United States in September 2000. The phrase on the bumper stickers, "George W. Bush for White House," can in context have no other reasonable meaning than to urge the election of Mr. Bush, and therefore is express advocacy. See 11 C.F.R. § 100.22(a). Accordingly, the bumper stickers would constitute an independent expenditure by the Lee Committee or, if coordinated, an in-kind contribution by the Lee Committee to the Bush campaign, unless the "coattail exemption" applies. In order to come within the exemption, the bumper stickers must have been used in connection with volunteer activity, not mailed by commercial vendors, and mailed from lists developed by the candidate. In addition, the funds used to pay for the bumper stickers must have come from contributions subject to the limitations and prohibitions of the Act. See 11 C.F.R. §§ 100.7(b)(16) and 100.8(b)(17).

We note preliminarily that the Lee Committee makes no claim that this mailing falls within the coattail exemption. At this time, however, there is insufficient evidence to conclude definitively whether the bumper stickers would qualify for the coattail exemption. Conrad Lee's

response does not address who distributed the mailings enclosing the bumper stickers, the source 1 2 of the list(s) from which names and mailing addresses were obtained, or whether the funds used to pay for the bumper stickers came from contributions subject to the limitations and prohibitions 3 of the Act. Limited discovery will be needed to clarify these issues. 8 However, it appears from a 4 review of the Lee Committee reports filed with the State of Washington that the Lee Committee 5 6 accepted corporate contributions, and that such funds were commingled with funds used to pay for the production and distribution of the bumper stickers.⁹ Accordingly, if the coattail 7 8 exemption does not apply, then the Lee Committee made an independent expenditure, which 9 should have been reported pursuant to section 434(c) of the Act. In the event that the coattail 10 exemption does not apply, discovery will also be needed in order to determine the production and distribution costs of the bumper stickers.¹⁰ 11

During discovery, this Office will also attempt to ascertain what, if any, communications Mr. Lee or others from the Lee Committee may have had with the Bush Committee concerning the bumper stickers in question in order to determine if a coordination theory should be pursued. It appears that the September 15, 2000 memorandum from the Bush-Cheney 2000 Legal Division attached to the complaint advises the Bush-Cheney 2000 Strategy and Political Divisions how state and local campaigns may legally avail themselves of the coattail exemption, and would not, by itself, constitute a request or suggestion from the campaign within the meaning of *Christian Coalition*. Moreover, we do not know if the Lee Committee received a copy of that memorandum or a similar one prior to the mailing of the bumper stickers.

Mr. Lee's claim that the bumper stickers were intended to benefit his election, not Bush's, is not relevant to the applicability of the coattail exemption. The legislative history of 2 U.S.C. § 431(8)(A)(xi) makes it clear that Congress considered and rejected such a test as a factor in determining whether an expenditure would qualify for the coattail exemption. See H.R. Rep. No. 422, 96th Cong., 1st Sess., at 10 (1979) reprinted in FEC Legislative History of Federal Campaign Act Amendments of 1979 at 185 (1983).

Payments involving expenditures on behalf of a federal candidate and disbursements on behalf of a non-federal candidate must be allocated according to the proportion of space devoted to each candidate. 11 C.F.R. § 106.1(a)(1). The allocation for the bumper stickers here is 50% for both Lee and Bush, based on the equal space given to each candidate on the bumper stickers. Therefore, if there was a contribution or expenditure, 50% of the total cost of the creation, production, and distribution of the bumper stickers must be allocated to the federal candidate. Using the candidate's figure of the distribution of the bumper stickers to just 8,000 households, as opposed to the 30,000 estimated by the complainant, postage would have had to be only \$.25 per mailing to reach \$1,000 allocated to the Bush campaign, and that is without adding in the costs of creation and production of the bumper stickers.

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1 If the coattail exemption does not apply, the Lee Committee may be a political committee 2 for purposes of the Act. In addition to likely meeting the monetary threshold for political 3 committee status in connection with the production and distribution of the bumper stickers, 4 which advocated the election of George W. Bush, see 2 U.S.C. § 431(4)(A) and footnote 10, 5 presumably the remainder of the Lee Committee's resources were devoted to campaign activity, 6 namely the election of Conrad Lee. If the Lee Committee was a political committee under the Act, it was required to file with the Commission pursuant to 2 U.S.C. §§ 433 and 434. 7 8 Based on the above, this Office recommends that the Commission find reason to believe 9 that the Committee to Elect Conrad Lee and David L. Yarno, as treasurer, violated 2 U.S.C. 10 §§ 433, 434, 441a(a)(1)(A), and 441b. 11 With respect to the Bush Committee, there is insufficient evidence of coordination to 12

recommend a finding of reason to believe at this time. Likewise, there is insufficient evidence to recommend a finding of reason to believe against the candidate, Conrad Lee, at this time. If discovery from the Lee Committee shows a coordination theory should be pursued against the Bush Committee and Mr. Lee, this Office will return to the Commission for additional reason-to-believe findings.¹¹

III. INVESTIGATION

If the Commission approves this Office's recommendations, this Office plans to engage in informal discovery. In the first instance, we intend to request from the Lee Committee information relating to the decision to distribute the bumper stickers, including any possible

If the Bush Committee impermissibly coordinated the mailing of the bumper stickers with Mr. Lee or the Lee Committee, it may have violated its public funding obligations by accepting a "private" contribution in violation of 26 U.S.C. § 9003(b), and 2 U.S.C. §§ 441a and 441b if the bumper stickers were funded by impermissible and excessive funds.

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Attachment:

1. Factual and Legal Analysis

communications with the Bush Committee, as well as the costs of the bumper stickers' 1 2 production and distribution. If the discovery responses indicate that the coattail exemption does 3 not apply, but there was no coordination, this Office will likely then recommend that the Commission offer pre-probable cause conciliation to the Lee Committee. 4 5 IV. **RECOMMENDATIONS** 6 1. Find reason to believe that the Committee to Elect Conrad Lee and David L. Yarno, 7 as treasurer, violated 2 U.S.C. §§ 433, 434, 441a(a)(1)(A), and 441b. 8 9 2. Approve the attached Factual and Legal Analysis. 10 11 3. Approve the appropriate letter. 12 13 14 Lois G. Lerner 15 Acting General Counsel 16 17 18 19 BY:

Acting Associate General Counsel



FEDERAL ELECTION COMMISSION

Washington, DC 20463

MEMORANDUM TO:	Office of the Commission Secretary Office of General Counsel				
FROM:					
DATE:	July 16 2001				
SUBJECT:	MUR 5	159 – First Go	eneral Counsel's Re	port	
The attached is submitted as an Agenda document for the Commission Meeting of					
Open Session		Clo	osed Session		
CIRCULATIONS			DISTRIBUTIO	V	
SENSITIVE NON-SENSITIVE			COMPLIANCE	\boxtimes	
72 Hour TALLY VO	TE	\boxtimes	Open/Closed Letters		
24 Hour TALLY VO	TE		MUR DSP		
24 Hour NO OBJE	CTION		STATUS SHEETS		
INFORMATION			Enforcement Litigation PFESP		
96 Hour TALLY VO	TE [RATING SHEETS		
			AUDIT MATTERS		
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			OTHER .		



MEMORANDUM

TO:

Lois Lerner

Acting General Counsel

FROM

Office of the Commission Secretary

DATE:

July 19, 2001

SUBJECT:

MUR 5159 - First General Counsel's Report

dated July 16, 2001.

The above-captioned document was circulated to the Commission

on Monday, July 16, 2001.

Objection(s) have been received from the Commissioner(s) as indicated by the name(s) checked below:

Commissioner Mason	XXX FOR THE RECORD	
Commissioner McDonald	_	
Commissioner Sandstrom	XXX	
Commissioner Smith	_	
Commissioner Thomas	_	
Commissioner Wold		

This matter will be placed on the meeting agenda for

Tuesday, July 24, 2001.

Please notify us who will represent your Division before the Commission on this matter.